

VIRGINIA PORT AUTHORITY
SINGLE AUDIT AND COMPLIANCE REPORTS
FOR THE YEAR ENDED JUNE 30, 2015

VIRGINIA PORT AUTHORITY

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VIRGINIA PORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
DEPARTMENT OF HOMELAND SECURITY:		
Direct Payments:		
Non-Profit Security Grant Program	97.008	\$ 128,860
Port Security Grant Program	97.056	<u>750,256</u>
Total Department of Homeland Security		<u>879,116</u>
DEPARTMENT OF TRANSPORTATION:		
Direct Payments:		
America's Marine Highway Grants	20.816	<u>2,401,052</u>
Total Federal Expenditures		<u><u>\$ 3,280,168</u></u>

VIRGINIA PORT AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Virginia Port Authority (the Authority) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133 define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance.

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the “Schedule of Expenditures of Federal Awards.”

Major Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used in defining major programs. The major program for the Authority was determined using a risk-based approach in accordance with OMB Circular A-133.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.



**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Terry McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

The Board of Commissioners
Virginia Port Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; the financial statements of the business-type activities and discretely presented component unit of the Virginia Port Authority (the Authority), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan, we identified a deficiency, 2015-01, in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan as item 2015-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Management's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
October 30, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

The Honorable Terry McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

To the Board of Commissioners
Virginia Port Authority

Report on Compliance for Each Major Federal Program

We have audited the Virginia Port Authority's (the Authority) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2015. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and circular require we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular No. A-133 and which is described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan as item 2015-02. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Authority as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated October 30, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
October 30, 2015

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2015

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	<u>√</u> Yes	<u> </u> No
Significant deficiency identified	<u> </u> Yes	<u>√</u> No
Noncompliance material to financial statements noted	<u> </u> Yes	<u>√</u> No

Federal awards

Internal control over major programs:

Material weaknesses identified	<u> </u> Yes	<u>√</u> No
Significant deficiencies identified	<u>√</u> Yes	<u> </u> No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u> </u> Yes	<u>√</u> No
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Identification of major programs:

CFDA Number	Name of Federal Program
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US Department of
Transportation:

20.816	America's Marine Highway Grants
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Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?	<u>√</u> Yes	<u> </u> No
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SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2015

II. FINANCIAL STATEMENT FINDINGS**2015-01: Material Weakness Related to the Capitalization of Interest**

Requirement: Interest incurred during the construction phase of capital projects is required to be capitalized and should be included as part of the cost basis of the asset. The amount of interest to be capitalized is to be determined based on the cumulative expenditures since inception of the projects multiplied by the borrowing rate (weighted average or specific).

Condition: During the course of our audit of construction in progress, it was noted the Authority had improperly calculated the amount of capitalized interest associated with capital projects funded with debt proceeds. In calculating the amount of interest to capitalize the Authority failed to apply the borrowing rate to the cumulative expenditures. In calculating capitalized interest, the Authority based its calculation on current year expenditures rather than the cumulative expenditures of each project.

Effect: By not properly calculating the amount of interest to be capitalized on construction projects funded with debt proceeds the risk exists to potentially understate the cost basis of those projects.

Recommendation: We recommend the Authority adopt a policy and implement procedures addressing the calculation of capitalized interest to ensure the calculation is properly performed.

Corrective Action Taken or Planned: The Authority has revised its policy to align directly with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Financial Accounting Standards Board (FASB) Statement No. 34, *Capitalization of Interest Cost*, and FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. In conjunction with the realignment of roles and responsibilities within the Finance Division, we will implement provisions to require review of interest capitalization at least quarterly and also consider performing the calculation of interest capitalization monthly depending on a cost/benefit analysis. This is underway and we expect this to be fully implemented during the first calendar quarter of 2016.

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2015

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**2015-02: Significant Deficiency Related to Preparation of Schedule of Expenditures of Federal Awards**

Requirement: Recipients of federal awards are required to track and maintain a complete and accurate accounting of expenditures associated with federal awards. These expenditures are required to be summarized and presented within the Schedule of Expenditures of Federal Awards (SEFA).

Condition: In the process of performing our audit, we were not provided a complete and accurate SEFA and we also determined instances in which grant funding received was not properly presented in the SEFA. The SEFA provided at the commencement of the audit did not contain accurate expenditures incurred for fiscal year 2015 related to the Non-Profit Security Grant Program, Port Security Grant Program, and America's Marine Highway Program. Not all grant expenditures were included in the SEFA, the expenditures included were not reported on an accrual basis, and the expenditures reported included non-federal matching funds. It was also noted federal funding received by the Authority had been commingled in accounts within the general ledger. Federal funding received related to the Hampton Roads Barge Operations and International Terminal Barge Service had been recorded in accounts in which other non-federal grant revenue was reflected. As a result of this commingling of grant sources it was difficult to reconcile federal revenue and expenditures associated with the grant.

Effect: The potential exists for federal expenditures to not be properly reflected within the SEFA. As a result of failing to properly record these items, the Authority could fail to report the proper amounts of federal expenditures associated with specific grants.

Recommendation: We recommend the Authority implement procedures to ensure all expenditures incurred involving federal funds are accounted for properly and reconciled timely. We also recommend recording federal revenue in separate general ledger accounts to ensure all federal revenue is accounted for properly. This will allow the Authority to produce a complete and accurate SEFA and will allow it to reconcile Federal revenue associated with Federal expenditures. Lastly, we recommend the Authority reconcile its SEFA on a quarterly basis at a minimum. By reconciling grant activity on a quarterly basis, the Authority will be able to identify any potential discrepancies between its financial records and amounts reported on the SEFA in a timely manner.

Corrective Action Taken or Planned: In conjunction with the realignment of roles and responsibilities within the Finance Division as described in Financial Statement Finding 2015-01, we will implement provisions to ensure the segregation of state and federal revenues. We will also require review and analysis of state and federal revenues at least quarterly. This is underway and we expect this to be fully implemented during the first calendar quarter of 2016.

VIRGINIA PORT AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2015

There were no audit findings reported in the prior year's Single Audit.